

THE SECRETARY OF STATE

WASHINGTON

DRAFT

Dear Mr. Stockman:

It is my understanding that the budget proposals to be submitted to the Congress will include steps designed to reduce the cost of Federal civilian retirement systems. I am writing to you to request that the Foreign Service be treated in the same way as the other "excepted services" such as the FBI, Secret Service and firefighters and also in the same way as the career military, each of which has a retirement system based on its unique needs.

The effort to provide retirement system comparability with the private sector is a constructive one, and one whose broad purposes I support. However, in the military and the "excepted services," early retirement is the primary extra compensation for service under particularly hazardous, demanding or stressful conditions. Accordingly, we understand you have decided to exempt the excepted services from automatic application of Civil Service proposals with respect to early retirement.

However, both the CIA and the Department of State have been told that their systems must apply the early retirement penalties as planned for the Civil Service, with the sole difference that the penalties would apply to retirement under age 60 rather than age 65 as proposed for the Civil Service. I am opposed to this, and I know Bill Casey is as well. The savings to be made are not great--around \$17 million in budget authority this year and zero impact on the current outlay budget--and the effect over time on our national security could be incalculable.

Our Foreign Service personnel system is based on the "up-or-out" principal which we and the military services employ to ensure that there is no deadwood at the top, and that we have enough flow-through to ensure that vigorous and experienced personnel are always available to take up any kind of

The Honorable

David A. Stockman, Director,
Office of Management and Budget.

- 2 -

representation or negotiation which the national interest requires. The simple fact is that we cannot run the Foreign Service as if it were the Civil Service where an employee can stay as long as he wants, and I am concerned that this has not been taken into account in your planning.

As you are aware, the Foreign Service is a rank-in-person system with substantial similarity to that for the commissioned officers corps of the military, and in fact was designed, in the 1946 Foreign Service Act, upon the Naval Officer model. The 1980 Foreign Service Act strengthened the concept of retention or involuntary retirement based upon performance, particularly at the senior levels. To remain in the Service, members of the Senior Foreign Service, the equivalent of the Senior Executive Service or the Flag Ranks of the Military, must either be promoted within set periods of time, or be given extended time in their current class, based on a selection board finding that their performance, and our needs, warrant such an extension. In 1983 and 1984, a total of 57 Senior officers were required to leave the Foreign Service under this provision. The mechanisms are different, but this is in essence the system for "passed over" military officers.

With this kind of system, the difficulty which would result from an early retirement penalty is obvious. We can hardly require officers who have devoted their efforts to the national welfare for a whole career to depart for service needs, and then to penalize them with an annuity which is not a decent retirement. At the same time, we cannot reserve the penalty only for those who wish to retire voluntarily. It would be fundamentally bad management to have involuntary retirement be regarded as the only way out.

Accordingly, I believe it is vital for the U.S. Government to retain the current Foreign Service model. It will be somewhat more expensive, but I think it is in the nation's interest to accept the costs in order to maintain a highly mobile, dedicated, competitive and motivated Foreign Service. We need a select and vigorous corps to represent our national security interests abroad just as we need, and have been prepared to pay for, a similar structure for the military services. We also need to be able to retire Foreign Service personnel when they have "burned out" after long service, and they are no longer available for worldwide service under the dangerous and unhealthful conditions which often obtain. I need not remind you that in the last two years the government has lost 21 personnel assigned to our missions overseas.

DRAFT

- 3 -

In general, I believe that comparability with the private sector can be achieved without impairing our operational goals. For example, an increase in contribution rates, a more conservative approach to COLA, a change in base years from "high-three" to "high-five," and authorization to establish voluntary savings plans may fall within this category. However, with respect to early retirement, both Bill Casey and I believe the government would be making a serious mistake and we request your reconsideration.

Sincerely yours,

George P. Shultz

WM B
Drafted: DGP/PC:RLDankert/WIBacchus:ap
1/24/85 x5157 Wang Doc 0322D